

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF CLARE	County CLARE & ISABELLA
Audit Date JUNE 30, 2004	Opinion Date FEBRUARY 10, 2005	Date Accountant Report Submitted to State: MARCH 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).			X

Certified Public Accountant (Firm Name) BURNSIDE & LAND, P.C.			
Street Address 5915 EASTMAN AVENUE, SUITE 100	City MIDLAND	State MI	ZIP 48640
Accountant Signature <i>Mark P. Burnside</i> CPA, CSEA <i>Burnside & Land, P.C.</i>			

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN

FINANCIAL STATEMENTS
For The Year Ended June 30, 2004

CITY OF CLARE

CITY COMMISSION

Pat Humphrey	Mayor
Jim Allen	Commissioner
Renee Crawford	Commissioner
Bill Horwood	Commissioner
Steven Kingsbury	Commissioner

MANAGEMENT

Ken Hibl	City Manager
Christine Burns	City Clerk
Patty Lemm	City Treasurer

CITY POPULATION–2000 CENSUS
3,173

STATE EQUALIZED VALUE–2003
\$90,786,000

STATE TAXABLE VALUE–2003
\$68,779,069

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
AUDITED FINANCIAL STATEMENTS
JUNE 30, 2004**

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Independent Auditors' Report

Members of the City Commission
City of Clare
Clare and Isabella, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Clare, Clare and Isabella Counties, Michigan (the "City"), as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Clare, Clare and Isabella Counties, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2005, on our consideration of the City of Clare's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in footnote 14, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No.34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as of June 30, 2004.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 39 through 42, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Clare's basic financial statements. The combining financial statements on pages 43 through 46 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Bernard J. J. P.C.", written in a cursive style.

Midland, Michigan
February 10, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the City of Clare's financial performance provides an overview of the City financial activities for the fiscal year that ended on June 30, 2004. Please read it in conjunction with the financial statements following this section.

This is the first year that the City has presented this element of the financial statements. The intent is to provide a quick summary of salient points and highlights so that readers can gain an appreciation of the City as a complex financial organization providing valuable services to the residents of Clare. The City continues to evolve in response to citizen desires, economic conditions, and decisions of the elected and appointed officials charged with governing the community.

The Management's Discussion and Analysis section in future years will likely be more detailed and comprehensive as the City's administrative staff becomes more accustomed to this analysis tool and is able to identify trends in the data. The report presents information on Governmental Activities and Business Type Activities. The Governmental Activities include the basic operations at city hall, public works, library, parks and recreation, public safety, community development and related debt service and capital outlay. Business Type Activities are the utilities of the City: water and wastewater.

Financial Highlights

- The City's combined net assets increased \$165,248 in 2004 to an ending balance of \$12,590,544.
- The City's governmental activities net assets remained relatively unchanged with a net increase of \$31,888 to \$8,196,295.
- The business-type activities net assets increased \$133,360 to \$4,394,249 from positive operations and capital contributions.
- Construction of a new Public Safety Building was commenced in April 2004 and is scheduled to be completed in October 2004. The total value of this new capital asset will be reflected in the financial reports of the City ending on June 30, 2005.
- The City's undesignated General Fund Balance increased to \$796,936, which is 44% of General Fund expenditures.
- The Sewer Fund's net assets increased \$130,407 to \$3,211,495; the Water Fund's net assets increased \$2,953 to \$1,182,754.
- The City's total debt outstanding (excluding component units) increased \$7,611 to \$3,793,801.
- At the close of the fiscal year ending on June 30, 2004, the City's unrestricted net assets in its governmental activities was \$1,471,870.

Overview of the Financial Statements

This annual report consists of these elements: management's discussion and analysis (this section); basic financial statements; and required supplementary information.

The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both long and short-term information about the City's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the City government and report the City's operation in more detail than the government-wide statements.

Government-wide Statements

Government-wide statements report information about the City as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all government assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when the cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets — the difference between the City's assets and liabilities — is one way to measure the City's financial health or position.

Over time, increases or decreases in the City's net assets are an indicator whether its financial health is improving or deteriorating, respectively. This section will become more significant in future years with data trends from multiple accounting periods.

To assess the overall health of the City one also needs to consider additional non-financial factors such as changes in the City property tax base, the economy, and the rate of growth.

The government-wide financial statements of the City are divided into two categories:

Governmental activities — The City's basic services are included here, such as police, fire, public works, parks, community development, solid waste, property assessment, finance and administration. Property taxes and state revenue sharing finance most of these activities. Fees for programs, licenses, and permits are also a source of revenue.

Business-type activities — The City of Clare charges user fees to cover the cost of providing water services and to finance the operations of the wastewater utility operated by the City.

Fund Financial Statements

The fund financial statements provide detailed information about the City's significant funds. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

The City has three kinds of funds:

Governmental funds — Most of the City's basic services are included in governmental funds that focus on (1) how cash, and other financial assets that can be readily converted to cash, flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, governmental funds statements tell how general government services like public safety and public works are financed in the short term as well as what future spending remains. Because this information does not encompass the additional long-term focus of government-wide statements, additional information is provided at the bottom of the governmental funds statement explaining the differences between them.

Propriety funds — Services for which the City charges users and other types of fees are reported in propriety funds. These include sewer, water, electricity and communication utilities. Propriety fund statements offer short and long-term financial information about activities that the City operates like a business.

Fiduciary funds — The City is a trustee, or fiduciary, for the collection of all property taxes with the City and for all taxing districts, including the local K-12 school district, the intermediate school district, a community college, two counties, and the State of Michigan. All the City's fiduciary activities are reported in a separate statement of fiduciary net assets. These activities are excluded from the City's government-wide financial statements because these assets cannot be used to finance operations.

Financial Analysis of the City as a Whole

Net Assets — The City's combined net assets increased by \$165,248 or about 1.3% in the reporting period ending June 30, 2004. This table describes the net assets of the City. Page 9 of the financial statements provides more detail.

	Governmental Activities	Business-Type Activities	Total
Assets:			
Current assets	\$ 2,349,405	\$ 1,565,180	\$ 3,914,585
Capital assets	6,894,326	6,574,191	13,468,517
Total assets	9,243,731	8,139,371	17,383,102
Liabilities:			
Current liabilities	367,411	442,816	810,227
Long-term liabilities	680,025	3,302,306	3,982,331
Total liabilities	1,047,436	3,745,122	4,792,558
Net Assets:			
Invested in capital assets, net of related debt	6,325,525	3,349,191	9,674,716
Restricted	398,900	25,000	423,900
Unrestricted	1,471,870	1,020,058	2,491,928
Total net assets	\$ 8,196,295	\$ 4,394,249	\$ 12,590,544

Changes in Net Assets

The City's 2003/2004 revenues total \$4,209,648 and expenses total \$4,044,400 resulting in an increase of net assets of \$165,248. The following table shows the changes of net assets for the year ending June 30, 2004. Page 10 of the financial statements provides more detail.

	Governmental Activities	Business-Type Activities	Total
Program revenues:			
Charges for services	\$ 405,926	\$ 1,337,856	\$ 1,743,782
Operating grants and contributions	444,319	-	444,319
Capital grants and contributions	87,210	-	87,210
General revenues:			
Property taxes and related fees	1,245,684	-	1,245,684
State aid	374,879	-	374,879
Other	145,911	167,863	313,774
Total revenues	<u>2,703,929</u>	<u>1,505,719</u>	<u>4,209,648</u>
Expenses:			
General government	597,601	-	597,601
Public safety	852,172	-	852,172
Public works	869,130	-	869,130
Community development	20,525	-	20,525
Recreation and culture	332,613	-	332,613
Sewer	-	839,613	839,613
Water	-	532,746	532,746
Total expenses	<u>2,672,041</u>	<u>1,372,359</u>	<u>4,044,400</u>
Increase in net assets	31,888	133,360	165,248
Net assets – beginning	8,164,467	4,260,889	12,425,296
Net assets - ending	<u>\$ 8,196,295</u>	<u>\$ 4,394,249</u>	<u>\$ 12,590,544</u>

Governmental Activities

Revenues for the City's governmental activities total \$2,703,929. Loss in state revenue sharing was offset by a slight growth in the City's tax base and increased fees charged for respective fund services.

City management took the following steps to stabilize or lower expenses to help offset the continued slow decline in revenues:

- Reduced the use of part-time police officers, thereby decreasing wages of the City's Police Department.
- Deferred planned capital improvements to City Hall.
- Consolidated and streamlined the purchase of expendable supplies.

Proprietary Funds

Revenues from the City's business-type activities decreased \$46,598 or 3.1%, while expenses increased \$72,700 or 5.6%.

Financial Analysis of the City's Funds

As the City completed its fiscal year, its governmental funds reported a combined fund balance of \$1,494,288. This represents a \$59,752 fund balance decrease from the last fiscal year. Fund balances decreased in the Major and Local Street and Fire Department Funds, and increased in the General Fund and collectively in all other non-major funds.

General Fund Budgetary Highlights

A detailed General Fund budget is adopted by the City Council on an annual basis following a scheduled series of publicly held budget workshops and appropriately noticed public hearings. A number of budget amendments were made throughout the year to adjust or compensate for unanticipated operational and emergency-type costs and to transfer monies from one fund to another.

The City's ending General Fund balance increased \$28,530 to \$836,396.

Capital Assets

The City had net investments of \$13,468,517 in capital assets at the end of this fiscal reporting period. These assets include municipally-owned buildings and land, public safety equipment (police and firefighting equipment and vehicles), recreational facilities, and water and sewer infrastructure (water towers, pump stations, underground distribution and collection systems, etc.). These assets will increase significantly in the next annual reporting period when the City completes its inventory of all public roads and sidewalks and includes these chattels in its totals.

Long Term Debt

At year end, the City (excluding its component units) had \$3,793,801 in outstanding bonds and notes. This amount is a \$7,611 increase from the previous fiscal year. Bond indebtedness is the result of bonds sold to finance various public improvement projects over the years, to include the construction of wastewater treatment facility, expansion of the existing sanitary sewer and water distribution systems, and construction of streetscape projects in the City's downtown area.

Economic Factors and Next Year's Budget

Economic Factors

- State revenue sharing has continued its downward spiral and is expected to decline again in at least the near term – more succinctly, until the state government resolves its budget deficit woes. One should anticipate that local governmental units will continue bearing a significant portion of the burden of these budget deficits; therefore the City must either find the means to reduce the cost of its services, reduce the level of services currently being provided, or find local means to increase its revenues (increase its tax base).
- A number of local industrial firms have either made or plan to make significant investments in their respective businesses – most notably, a \$2M investment by JD Metalworks and a similar investment by Stageright, Incorporated. However, the City's primary industrial park is near its maximum capacity and additional property must be purchased to continue the City's future industrial development.
- With the exception of the construction of two new apartment buildings in the City, the local housing market has remained stagnant and only a handful of new housing starts were realized in the City this budget year. Barring any significant shift in demography or the economy, this trend is expected to continue.
- The cost of employee health care is expected to continue to escalate.

2004/2005 Budget

The City adopted its 2004/2005 budget on July 1, 2004. With the exception of increased capital outlay in the airport budget for renovation of its existing Runway 08/26 and completion of the City's new Public Safety Building, approved appropriations were commensurate with those of the City's 2003/2004 adopted budget. As a general rule, only consumer price index and labor contract mandated increases were made in the new budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT TEAM

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances. It is intended to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional information, please contact either City Manager, Ken Hibl or City Clerk, Christine Burns.

City of Clare
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Clare, Michigan 48617
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CITY OF CLARE
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2004

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 1,638,976	\$ 897,530	\$ 2,536,506	\$ 303,621
Accounts receivable, net	81,086	183,599	264,685	-
Taxes receivable, net	807	-	807	-
Assessments receivable, net	171,171	421,306	592,477	-
Other receivables	187,876	4,092	191,968	-
Due from other funds	85,927	-	85,927	-
Due from component units	43,110	-	43,110	-
Due from primary governmental unit	-	-	-	175,941
Due from other governmental units	75,355	-	75,355	-
Inventory	20,621	28,909	49,530	-
Prepaid items	44,476	4,744	49,220	-
Restricted cash	-	25,000	25,000	-
Capital assets:				
Land	3,675,456	53,389	3,728,845	50,735
Library collections	-	-	-	777,007
Construction in progress	429,629	-	429,629	-
Land improvements, net	781,136	115,391	896,527	39,180
Buildings and improvements, net	791,139	1,874,386	2,665,525	-
Equipment, net	1,216,966	436,030	1,652,996	2,800
Infrastructure, net	-	4,094,995	4,094,995	-
Total capital assets	6,894,326	6,574,191	13,468,517	869,722
Total assets	9,243,731	8,139,371	17,383,102	1,349,284
LIABILITIES				
Accounts payable	239,022	5,286	244,308	-
Accrued expenses	68,442	34,530	102,972	23
Due to other funds	-	50,000	50,000	-
Due to primary governmental unit	-	-	-	43,110
Due to other governmental units	-	-	-	61,694
Deferred revenue	171,171	421,306	592,477	-
Deposits and other liabilities	-	9,000	9,000	-
Long-term liabilities:				
Portion due or payable within one year:				
Bonds and contracts payable	10,302	344,000	354,302	90,000
Capital leases	49,645	-	49,645	-
Portion due or payable after one year:				
Bonds and contracts payable	417,629	2,881,000	3,298,629	700,000
Capital leases	91,225	-	91,225	-
Total liabilities	1,047,436	3,745,122	4,792,558	894,827
NET ASSETS				
Invested in capital assets, net of related debt	6,325,525	3,349,191	9,674,716	549,722
Restricted for:				
Capital projects	32,417	-	32,417	-
Debt service	16,616	25,000	41,616	-
Other purposes	349,867	-	349,867	-
Unrestricted	1,471,870	1,020,058	2,491,928	(95,265)
Total net assets	\$ 8,196,295	\$ 4,394,249	\$ 12,590,544	\$ 454,457

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Activities:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Component Units
					Governmental Activities	Business-Type Activities		
Governmental:								
General government	\$ 597,601	\$ 74,405	\$ -	\$ -	\$ (523,196)		\$ (523,196)	
Public safety	852,172	165,361	-	23,000	(663,811)		(663,811)	
Public works	869,130	107,892	444,319	64,210	(252,709)		(252,709)	
Community development	20,525	-	-	-	(20,525)		(20,525)	
Recreation and culture	332,613	58,268	-	-	(274,345)		(274,345)	
Total governmental activities	<u>2,672,041</u>	<u>405,926</u>	<u>444,319</u>	<u>87,210</u>	<u>(1,734,586)</u>		<u>(1,734,586)</u>	
Business-type:								
Sewer	839,613	876,747	-	-		\$ 37,134	37,134	
Water	532,746	461,109	-	-		(71,637)	(71,637)	
Total business-type activities	<u>1,372,359</u>	<u>1,337,856</u>	<u>-</u>	<u>-</u>		<u>(34,503)</u>	<u>(34,503)</u>	
Total Primary Government	<u>\$ 4,044,400</u>	<u>\$ 1,743,782</u>	<u>\$ 444,319</u>	<u>\$ 87,210</u>	<u>(1,734,586)</u>	<u>(34,503)</u>	<u>(1,769,089)</u>	
Component units:								
Downtown Development Authority	153,074	-	-	-				\$ (153,074)
Local Development Finance Authority	28,058	-	-	-				(28,058)
Library	143,876	70,560	12,896	-				(60,420)
Total business-type activities	<u>\$ 325,008</u>	<u>\$ 70,560</u>	<u>\$ 12,896</u>	<u>\$ -</u>				<u>(241,552)</u>
General revenues:								
Property taxes and related fees					1,245,684	-	1,245,684	213,249
State aid					374,879	-	374,879	-
Interest earnings					9,870	8,208	18,078	3,879
Miscellaneous					136,041	159,655	295,696	18,685
Total general revenues and transfers					<u>1,766,474</u>	<u>167,863</u>	<u>1,934,337</u>	<u>235,813</u>
Change in net assets					31,888	133,360	165,248	(5,739)
Net assets-beginning					8,164,407	4,260,889	12,425,296	460,196
Net assets-ending					<u>\$ 8,196,295</u>	<u>\$ 4,394,249</u>	<u>\$ 12,590,544</u>	<u>\$ 454,457</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
GOVERNMENTAL FUND BALANCE SHEET
June 30, 2004

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Fire Department</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS						
Cash and cash equivalents	\$ 602,440	\$ 24,133	\$ 21,885	\$ 153,979	\$ 477,783	\$ 1,280,220
Accounts receivable, net	68,653	-	-	10,342	-	78,995
Taxes receivable, net	657	-	83	-	67	807
Assessment receivable, net	112,404	13,666	36,134	-	8,967	171,171
Due from other funds	103,216	-	1,299	-	432	104,947
Due from component units	43,110	-	-	-	-	43,110
Due from other governmental units	54,153	14,652	6,550	-	-	75,355
Inventory	3,507	-	-	-	-	3,507
Other receivables	3,561	222	89	4,732	177,470	186,074
Prepaid items	35,953	1,995	2,958	1,905	171	42,982
Total assets	<u>\$ 1,027,654</u>	<u>\$ 54,668</u>	<u>\$ 68,998</u>	<u>\$ 170,958</u>	<u>\$ 664,890</u>	<u>\$ 1,987,168</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 35,669	\$ -	\$ -	\$ 43	\$ 202,267	\$ 237,979
Accrued expenses	43,185	1,519	2,267	17,621	117	64,709
Due to other funds	-	-	-	-	19,021	19,021
Deferred revenue	112,404	13,666	36,134	-	8,967	171,171
Total liabilities	<u>191,258</u>	<u>15,185</u>	<u>38,401</u>	<u>17,664</u>	<u>230,372</u>	<u>492,880</u>
Fund balances:						
Reserved for:						
Inventories	3,507	-	-	-	-	3,507
Prepaid items	35,953	1,995	2,958	1,905	171	42,982
Unreserved and undesignated	796,936	37,488	27,639	151,389	434,347	1,447,799
Total fund balances	<u>836,396</u>	<u>39,483</u>	<u>30,597</u>	<u>153,294</u>	<u>434,518</u>	<u>1,494,288</u>
Total liabilities and fund balances	<u>\$ 1,027,654</u>	<u>\$ 54,668</u>	<u>\$ 68,998</u>	<u>\$ 170,958</u>	<u>\$ 664,890</u>	<u>\$ 1,987,168</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2004

Total fund balances for governmental funds (Exhibit 4) \$ 1,494,288

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	3,675,456	
Construction in progress		429,629	
Land improvements, net of \$33,041 accumulated depreciation		781,136	
Buildings and improvements, net of \$465,944 accumulated depreciation		791,139	
Equipment, net of \$1,563,717 accumulated depreciation		1,216,966	
Total capital assets			6,894,326

The internal service funds (see Exhibit 6) are used by the City to charge the cost of operating a data processing service and a mobile equipment service to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The internal service fund's unrestricted net assets are:

376,481

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets. Balances at June 30, 2004 are:

Capital lease obligation	\$	(128,870)	
Installment purchase contract		(10,301)	
2004 General Obligation Limited Tax Bond		(429,629)	(568,800)

Total net assets of governmental activities (Exhibit 2) \$ 8,196,295

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES
For the Year Ended June 30, 2004

	General	Major Street	Local Street	Fire Department	Other Governmental Funds	Total
REVENUES						
Property taxes and related fees	\$ 1,183,817	\$ -	\$ 46,410	\$ -	\$ 15,457	\$ 1,245,684
Licenses and permits	34,819	-	-	-	-	34,819
Federal aid	-	-	-	23,000	-	23,000
State aid	374,879	360,247	84,072	-	-	819,198
Charges for services	231,890	-	-	115,613	8,675	356,178
Interest and dividends	3,826	268	65	1,780	4,181	10,120
Fines and forfeits	14,929	-	-	-	-	14,929
Special assessments, net	53,287	773	6,495	-	3,655	64,210
Sale of assets	1,300	-	-	2,325	-	3,625
Donations	1,860	-	-	1,500	-	3,360
Miscellaneous	37,211	12,309	2,054	777	645	52,996
Total revenues	<u>1,937,818</u>	<u>373,597</u>	<u>139,096</u>	<u>144,995</u>	<u>32,613</u>	<u>2,628,119</u>
EXPENDITURES						
General government	529,471	-	-	-	-	529,471
Public safety	633,894	-	-	159,012	1,384	794,290
Public works	222,275	339,121	282,210	-	10,788	854,394
Community development	20,525	-	-	-	-	20,525
Recreation and culture	301,766	-	-	-	-	301,766
Capital outlay	105,740	-	-	43,790	429,879	579,409
Debt service	-	-	-	37,645	-	37,645
Total expenditures	<u>1,813,671</u>	<u>339,121</u>	<u>282,210</u>	<u>240,447</u>	<u>442,051</u>	<u>3,117,500</u>
Excess (deficiency) of revenues over expenditures	<u>124,147</u>	<u>34,476</u>	<u>(143,114)</u>	<u>(95,452)</u>	<u>(409,438)</u>	<u>(489,381)</u>
OTHER FINANCING SOURCES (USES)						
Proceeds from debt obligations	-	-	-	-	429,629	429,629
Transfers-in	-	-	115,258	63,589	18,000	196,847
Transfers-out	(95,617)	(75,479)	-	(7,200)	(18,551)	(196,847)
Total other financing sources and uses	<u>(95,617)</u>	<u>(75,479)</u>	<u>115,258</u>	<u>56,389</u>	<u>429,078</u>	<u>429,629</u>
Net change in fund balances	28,530	(41,003)	(27,856)	(39,063)	19,640	(59,752)
Fund balances-beginning	<u>807,866</u>	<u>80,486</u>	<u>58,453</u>	<u>192,357</u>	<u>414,878</u>	<u>1,554,040</u>
Fund balances-ending	<u>\$ 836,396</u>	<u>\$ 39,483</u>	<u>\$ 30,597</u>	<u>\$ 153,294</u>	<u>\$ 434,518</u>	<u>\$ 1,494,288</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
June 30, 2004

Net change in fund balances - total governmental funds (Exhibit 5) \$ (59,752)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$579,409) exceeded depreciation (\$280,791) in the current period. 298,618

Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Debt issued:		
2004 General Obligation Limited Tax Bond	\$	(429,629)
Repayments:		
Capital lease obligation	37,645	<u>(391,984)</u>

The internal service funds (see Exhibit 7) are used by the City to charge the costs of operating a data processing service and a mobile equipment service to individual funds. The net revenue of the internal service funds is reported within the governmental activities. 185,006

Change in net assets of governmental activities (Exhibit 3) \$ 31,888

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
PROPRIETARY FUND STATEMENT OF NET ASSETS
June 30, 2004

	Enterprise Funds			Internal Service Funds
	Sewer Fund	Water Fund	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 606,441	\$ 291,089	\$ 897,530	\$ 358,756
Accounts receivable, net	108,844	74,755	183,599	2,091
Assessments receivable	318,923	102,383	421,306	-
Other receivables	2,626	1,466	4,092	1,802
Inventory	12,988	15,921	28,909	17,114
Prepaid items	1,892	2,852	4,744	1,494
Total current assets	1,051,714	488,466	1,540,180	381,257
Noncurrent assets:				
Restricted cash	25,000	-	25,000	-
Capital assets:				
Land	10,757	42,632	53,389	85,000
Land improvements, net	115,391	-	115,391	-
Buildings and improvements, net	1,811,792	62,594	1,874,386	231,923
Equipment, net	436,030	-	436,030	407,966
Infrastructure, net	2,900,024	1,194,971	4,094,995	-
Total capital assets	5,273,994	1,300,197	6,574,191	724,889
Total assets	6,350,708	1,788,663	8,139,371	1,106,146
LIABILITIES				
Current liabilities:				
Accounts payable	5,198	88	5,286	1,043
Accrued expenses	26,092	8,438	34,530	3,733
Deposits and other liabilities	9,000	-	9,000	-
Due to other funds	-	50,000	50,000	-
Deferred revenue	318,923	102,383	421,306	-
Bonds and contracts payable	324,000	20,000	344,000	10,302
Total current liabilities	683,213	180,909	864,122	15,078
Noncurrent liabilities				
Bonds and contracts payable	2,456,000	425,000	2,881,000	-
Total noncurrent liabilities	2,456,000	425,000	2,881,000	-
Total liabilities	3,139,213	605,909	3,745,122	15,078
NET ASSETS				
Invested in capital assets, net of related debt	2,493,994	855,197	3,349,191	714,587
Restricted for debt obligations	25,000	-	25,000	-
Unrestricted	692,501	327,557	1,020,058	376,481
Total net assets	\$ 3,211,495	\$ 1,182,754	\$ 4,394,249	\$ 1,091,068

The accompanying notes are an integral part of these financial statements.

CTTY OF CLARE
PROPRIETARY FUND STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2004

	Enterprise Funds			Internal Service Funds
	Sewer Fund	Water Fund	Total	
OPERATING REVENUES				
Charges for services	\$ 865,836	\$ 309,316	\$ 1,175,152	\$ 610,176
Miscellaneous	10,911	151,793	162,704	17,084
Total operating revenues	<u>876,747</u>	<u>461,109</u>	<u>1,337,856</u>	<u>627,260</u>
OPERATING EXPENSES				
Salaries and wages	106,490	132,352	238,842	108,541
Payroll taxes	8,308	10,418	18,726	19,165
Employee benefits	37,023	46,186	83,209	32,786
Supplies	32,888	13,180	46,068	45,132
Postage	-	-	-	2,070
Contracted services	9,694	9,998	19,692	32,213
Insurance	6,851	4,481	11,332	21,352
Telephone and communications	3,244	1,321	4,565	1,029
Travel, meals and lodging	54	23	77	-
Training	540	1,483	2,023	1,663
Utilities	61,762	37,034	98,796	10,414
Repair and maintenance	50,856	81,011	131,867	12,174
Equipment rental	118,175	103,332	221,507	18,621
Miscellaneous	9,136	3,930	13,066	161
Depreciation	261,396	62,964	324,360	139,395
Total operating expenses	<u>706,417</u>	<u>507,713</u>	<u>1,214,130</u>	<u>444,716</u>
Operating income (loss)	<u>170,330</u>	<u>(46,604)</u>	<u>123,726</u>	<u>182,544</u>
NONOPERATING REVENUES (EXPENSES)				
Special assessments	69,822	27,401	97,223	-
Investment earnings	5,269	2,939	8,208	5,293
Other revenue	18,182	44,250	62,432	-
Interest expense	(133,196)	(25,033)	(158,229)	(2,831)
Total nonoperating revenue (expenses)	<u>(39,923)</u>	<u>49,557</u>	<u>9,634</u>	<u>2,462</u>
Changes in net assets	130,407	2,953	133,360	185,006
Total net assets-beginning	<u>3,081,088</u>	<u>1,179,801</u>	<u>4,260,889</u>	<u>906,062</u>
Total net assets-ending	<u>\$ 3,211,495</u>	<u>\$ 1,182,754</u>	<u>\$ 4,394,249</u>	<u>\$ 1,091,068</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
PROPRIETARY FUND STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2004

	Enterprise Funds			Internal Service Funds
	Sewer Fund	Water Fund	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 895,617	\$ 447,590	\$ 1,343,207	\$ 627,280
Payments to suppliers	(171,362)	(155,206)	(326,568)	(156,893)
Payments to employees	(131,022)	(187,342)	(318,364)	(162,810)
Internal activity-payments from (to) other funds	(118,175)	(103,332)	(221,507)	-
Net cash provided (used) by operating activities	<u>475,058</u>	<u>1,710</u>	<u>476,768</u>	<u>307,577</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Customer deposits	(250)	-	(250)	-
Nonoperating revenue (expense)	18,182	44,250	62,432	-
Interfund loans-proceeds and collections	-	(10,000)	(10,000)	-
Net cash provided by noncapital financing activities	<u>17,932</u>	<u>34,250</u>	<u>52,182</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Purchases and construction of capital assets	(126,070)	(4,200)	(130,270)	(124,575)
Proceeds from special assessments	69,822	27,401	97,223	-
Principal paid on capital debt	(324,000)	(20,000)	(344,000)	(40,373)
Interest paid on capital debt	(133,196)	(25,033)	(158,229)	(2,831)
Net cash used by capital and related financing activities	<u>(513,444)</u>	<u>(21,832)</u>	<u>(535,276)</u>	<u>(167,779)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest and dividends	4,394	2,260	6,654	4,121
Net increase in cash and cash equivalents	(16,060)	16,388	328	143,919
Balances-beginning of the year	647,501	274,701	922,202	214,837
Balances-end of the year	<u>\$ 631,441</u>	<u>\$ 291,089</u>	<u>\$ 922,530</u>	<u>\$ 358,756</u>
Displayed as:				
Cash and cash equivalents	\$ 606,441	\$ 291,089	\$ 897,530	\$ 358,756
Restricted cash	25,000	-	25,000	-
	<u>\$ 631,441</u>	<u>\$ 291,089</u>	<u>\$ 922,530</u>	<u>\$ 358,756</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 170,330	\$ (46,604)	\$ 123,726	\$ 182,544
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	261,396	62,964	324,360	139,395
Change in assets and liabilities:				
Receivables, net	18,870	(13,519)	5,351	20
Inventory	(467)	3,066	2,599	(13,170)
Prepaid items	304	(114)	190	1,231
Accounts payable	3,826	(5,697)	(1,871)	(125)
Accrued expenses	20,799	1,614	22,413	(2,318)
Net cash provided (used) by operating activities	<u>\$ 475,058</u>	<u>\$ 1,710</u>	<u>\$ 476,768</u>	<u>\$ 307,577</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
CURRENT TAX FUND
June 30, 2004

ASSETS

Cash and cash equivalents	\$ 309,225
Miscellaneous receivable	<u>2,172</u>
Total assets	<u>311,397</u>

LIABILITIES

Due to other governmental units	99,529
Due to other funds	35,927
Due to component units	<u>175,941</u>
Total liabilities	<u>311,397</u>

NET ASSETS

<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

CITY OF CLARE
COMBINING STATEMENT OF NET ASSETS - COMPONENT UNITS
June 30, 2004

	Downtown Development Authority	Local Development Finance Authority	Library	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 150,521	\$ 90,834	\$ 62,266	\$ 303,621
Due from primary governmental unit	114,426	61,515	-	175,941
Total current assets	<u>264,947</u>	<u>152,349</u>	<u>62,266</u>	<u>479,562</u>
Noncurrent assets:				
Capital assets:				
Land	50,735	-	-	50,735
Library collections	-	-	777,007	777,007
Land improvements, net	39,180	-	-	39,180
Equipment, net	-	-	2,800	2,800
Total capital assets	<u>89,915</u>	<u>-</u>	<u>779,807</u>	<u>869,722</u>
Total assets	<u>354,862</u>	<u>152,349</u>	<u>842,073</u>	<u>1,349,284</u>
LIABILITIES				
Liabilities:				
Accrued expenses	-	-	23	23
Due to primary governmental unit	15,936	-	27,174	43,110
Due to other governmental units	61,694	-	-	61,694
Bonds and contracts payable	50,000	40,000	-	90,000
Total current liabilities	<u>127,630</u>	<u>40,000</u>	<u>27,197</u>	<u>194,827</u>
Noncurrent liabilities				
Bonds and contracts payable	270,000	430,000	-	700,000
Total noncurrent liabilities	<u>270,000</u>	<u>430,000</u>	<u>-</u>	<u>700,000</u>
Total liabilities	<u>397,630</u>	<u>470,000</u>	<u>27,197</u>	<u>894,827</u>
NET ASSETS				
Invested in capital assets, net of related debt	(230,085)	-	779,807	549,722
Unrestricted	187,317	(317,651)	35,069	(95,265)
Total net assets	<u>\$ (42,768)</u>	<u>\$ (317,651)</u>	<u>\$ 814,876</u>	<u>\$ 454,457</u>

CITY OF CLARE
COMBINING STATEMENT OF ACTIVITIES - COMPONENT UNITS
Year Ended June 30, 2004

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Local Development Authority	Library	Total
Downtown Development Authority								
Community and economic development	\$ 153,074	\$ -	\$ -	\$ -	\$ (153,074)	\$ -	\$ -	\$ (153,074)
Local Development Finance Authority								
Community and economic development	28,058	-	-	-	-	(28,058)	-	(28,058)
Library								
Recreation and culture	143,876	70,560	12,896	-	-	-	(60,420)	(60,420)
Total activities	<u>\$ 325,008</u>	<u>\$ 70,560</u>	<u>\$ 12,896</u>	<u>\$ -</u>	<u>(153,074)</u>	<u>(28,058)</u>	<u>(60,420)</u>	<u>(241,552)</u>
General revenues:								
Tax increment					87,123	61,515	-	148,638
Property taxes					-	-	64,611	64,611
Special assessments					-	10,786	-	10,786
Interest earnings					2,006	1,011	862	3,879
Miscellaneous					1,908	-	5,991	7,899
Total general revenues					<u>91,037</u>	<u>73,312</u>	<u>71,464</u>	<u>235,813</u>
Change in net assets					<u>(62,037)</u>	<u>45,254</u>	<u>11,044</u>	<u>(5,739)</u>
Net assets-beginning					<u>19,269</u>	<u>(362,905)</u>	<u>803,832</u>	<u>460,196</u>
Net assets-ending					<u>\$ (42,768)</u>	<u>\$ (317,651)</u>	<u>\$ 814,876</u>	<u>\$ 454,457</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City:

A. Reporting Entity

The City of Clare (the “City”) is governed by an elected five-member commission. The City provides services to its various residents in many areas, including law enforcement, health and sanitation, community enrichment and development and human services. As required by GAAP, these financial statements present the City and its component units. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, “*The Financial Reporting Entity*.”

The individual component unit discussed below is included in the City’s reporting entity because of the significance of its operational or financial relationships with the City.

Discretely Presented Component Units

The following component unit is reported within the “component unit” column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the City, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City’s financial statements to be misleading or incomplete.

Local Development Finance Authority (LDFA) - The LDFA was created to help finance local industrial development projects. The Authority’s governing body, which consists of 9 members, is selected by the City Commission. In addition, the Authority’s budget is subject to approval by the City Commission. The LDFA does not issue separate financial statements.

Downtown Development Authority (DDA) - The DDA was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority’s governing body, which consists of 12 members, is selected by the City Commission. The City Commission approves the annual budget of the DDA. The DDA does not issue separate financial statements.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Library – The Garfield Memorial Library is a city library established by the City Charter and governed by Public Act 164. The Library's governing body, which consists of 5 members, is selected by the Mayor and each member serves a five-year term. In addition, the Library's budget is subject to approval by the City Commission. The Library does not issue separate financial statements.

Complete financial information of the individual component units can be obtained from their respective administrative offices or from the City Clerk.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual—that is, when they become both measurable and available to finance expenditures of the fiscal period. Revenue susceptible to accrual include: property taxes, state revenue sharing, reimbursement type grants, charges for services, and interest income.

The City property tax is levied each December 1st on the taxable valuation of property (as defined by State statutes) located in the City as of the preceding December 31st.

The 2003 taxable valuation of the City totaled \$72.3 million (\$3.5 million of which relates to an Industrial Facilities Tax designation), on which ad valorem taxes levied consisted of 17.75 mills for City operating purpose, 0.9491 mills for the City Library, 0.7317 mills for streets, 0.2438 for sidewalks, and 0.7357 for parks. These amounts are recognized in the General Fund, City Library (Component Unit), Local Street, and Sidewalk Replacement Fund as property taxes and related fees.

The government reports the following major funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Major Street Fund accounts for the receipt and expenditures of State motor fuel taxes which are earmarked by law for major street and highway purposes.

The Local Street Fund is used to account for the receipt and expenditure of State motor fuel taxes which are earmarked by law for local street and highway purposes.

The Fire Department Fund is used to account for the activities related for fire protection for the City and neighboring communities.

The government reports the following major proprietary funds:

The Sewer Fund is used to record the revenues and expenses for the operation of the sewer system. Capital assets are recorded within the fund and depreciation is charged.

The Water Fund is used to record the revenues and expenses for the operation of the water system. Capital assets are recorded within the fund and depreciation is charged.

Additionally, the government reports the following fund types:

The Data Processing Fund is an internal service fund, which accounts for the operation of the data processing function within the City. Money for the operation of this fund is supplied from reimbursements from user departments.

The Mobile Equipment Fund is an internal service fund, which accounts for major machinery and equipment purchases and maintenance to provide services to other departments of the City on a cost reimbursement basis.

The Current Tax Collection Fund is used to account for resources held by the City in a purely custodial capacity. Money in this fund is from current tax and special assessment collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989 for its business-type activities.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's proprietary funds relate to charges to customers for sales and services. The sewer and water fund also recognizes the portion of tap fees intended to recover current costs as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other funds”. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds”.

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items—Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect cost applicable to future years and are recorded as prepaid items in the government-wide and fund statements.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets—The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets—Capital assets, which include property, plant, equipment and infrastructure assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred, if any, during the construction of capital assets of business-type activities is included in the capitalized value of the assets constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings and improvements	40 years
Sewer and water systems	50 years
Vehicles	3 to 5 years
Equipment	7 to 10 years

Deferred Revenue—Deferred revenue represent amounts that do not meet the availability criteria for recognition as revenue, such as grant monies received before the expenditure is incurred, and special assessments before the assessment is received.

Compensated Absences (Vacation and Sick Leave)—Vacation and sick leave benefits attributable to the City's governmental funds are recorded as an expenditure and a current liability in the respective funds. The amounts attributable to proprietary funds are charged to expense and a corresponding liability in the applicable fund is recorded. Annual vacation and sick leave does not carryover; it must be used or it is lost.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations, if any, of fund balance represent tentative management plans that are subject to change.

Encumbrances—Encumbrances are defined as commitments related to unperformed contracts for goods or services. The City does not record encumbrances in the normal course of operating its accounting system and none are recorded in the accompanying financial statements.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimated.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- Annual budgets are legally adopted and formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds. Annual Informational Budget Summaries are prepared for Debt Service Funds, Capital Project Funds, Enterprise Funds and Internal Service Funds.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

- Budgets can be amended during the year by a majority vote of the City Commission. The activity level in the General Fund and the fund level in the Special Revenue Funds are the the legal level of control.
- Budgets for the General Fund and Special Revenue Funds are prepared on a modified accrual basis. Also, informational budgets for the Debt Service Funds and Capital Projects Funds are prepared on the modified accrual basis, while the Enterprise Fund and Internal Service Fund informational budgets are prepared using the accrual basis of accounting. Both methods are consistent with generally accepted accounting principles (GAAP).
- Budget appropriations lapse at year end.
- The original budget was amended during the year in compliance with local and state laws. The budget to actual expenditures in the financial statements represent the final budgeted expenditures as amended by the City.

B. Excess of Expenditures Over Appropriations for Budgetary Funds

The General Fund had expenditures exceeding budgeted appropriations at the activity level, which is the City's legal level of budgetary control for the year ended June 30, 2004.

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
GENERAL GOVERNMENT			
City Commission	\$ 35,000	\$ 52,129	\$ (17,129)
Building Inspection and Regulation Activities	25,841	33,447	(7,606)

NOTE 3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the City to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The City is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptances of United States banks' commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

The City Council has designated three banks for the deposit of City funds. The investment policy adopted by the council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory as listed above.

The City's deposits and investment policy are in accordance with statutory authority.

At year-end, the City's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business- Type Funds	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 1,638,976	\$ 897,530	\$ 309,225	\$ 2,845,731	\$ 303,621
Restricted cash	-	25,000	-	25,000	-
Total	<u>\$ 1,638,976</u>	<u>\$ 922,530</u>	<u>\$ 309,225</u>	<u>\$ 2,870,731</u>	<u>\$ 303,621</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Component Units
Bank Deposits (checking and savings, certificates of deposit)	\$ 600,454	\$ 303,621
Bank repurchase agreements with Chemical Bank and Trust Company	2,250,000	-
Cash held by Isabella County	19,927	-
Petty Cash and Cash on Hand	350	-
Total	<u>\$ 2,870,731</u>	<u>\$ 303,621</u>

The bank balances of the primary government deposits is \$843,164, of which \$295,836 is covered by federal deposit insurance. The component unit's deposits had bank balances of \$341,018 of which \$289,446 is covered by federal deposit insurance. The repurchase agreements are not insured by federal deposit insurance and the City's interest in the underlying government security is not perfected.

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 4. CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

Governmental Activities	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 3,607,907	\$ 67,549	\$ -	\$ 3,675,456
Construction in progress	-	429,629	-	429,629
Capital Assets Being Depreciated				
Land Improvements	814,176	-	-	814,176
Buildings and Improvements	1,218,892	38,191	-	1,257,083
Equipment	2,612,319	168,365	-	2,780,684
Subtotal	4,645,387	206,556	-	4,851,943
Less Accumulated Depreciation for				
Land Improvements	14,235	18,805	-	33,040
Buildings and Improvements	399,371	66,573	-	465,944
Equipment	1,368,305	195,413	-	1,563,718
Subtotal	1,781,911	280,791	-	2,062,702
Net Capital Assets Being Depreciated	2,863,476	(74,235)	-	2,789,241
Governmental Activities Capital Assets— Net of Depreciation	<u>\$ 6,471,383</u>	<u>\$ 422,943</u>	<u>\$ -</u>	<u>\$ 6,894,326</u>

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 4. CAPITAL ASSETS (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 53,389	\$ -	\$ -	\$ 53,389
Capital Assets Being Depreciated				
Land Improvements	465,117	-	-	465,117
Buildings and Improvements	3,657,715	-	-	3,657,715
Equipment	1,340,519	4,200	-	1,344,719
Infrastructure	6,211,965	126,070	-	6,338,035
Subtotal	11,675,316	130,270	-	11,805,586
Less Accumulated Depreciation for				
Land Improvements	340,236	9,490		349,726
Buildings and Improvements	1,685,265	98,064		1,783,329
Equipment	858,072	50,617		908,689
Infrastructure	2,076,850	166,190	-	2,243,040
Subtotal	4,960,423	324,361	-	5,284,784
Net Capital Assets Being Depreciated	6,714,893	(194,091)	-	6,520,802
Business-Type Activities Capital Assets—Net of Depreciation	\$ 6,768,282	\$ (194,091)	\$ -	\$ 6,574,191

Depreciation expense was charged to programs of the City as follows:

Governmental Activities

General Government	\$ 68,126
Public Safety	57,882
Public Works	14,736
Recreation and Culture	30,847
Internal Service Funds	109,200
Total Governmental Activities	<u>\$ 280,791</u>

Business-Type Activities

Sewer	\$ 261,397
Water	62,964
Total Business-Type Activities	<u>\$ 324,361</u>

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 5. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General	\$ 103,216	Sidewalks	\$ 2,751
Local Streets	1,299	Capital Improvements	16,269
Sidewalks	432	Water	50,000
		Tax Collection	35,927
Total	<u>\$ 104,947</u>	Total	<u>\$ 104,947</u>

Interfund Transfers:

Fund	Transfers Out	Fund	Transfers In
General	\$ 95,617	Local Street	\$ 115,258
Major Street	75,479	Fire	63,589
Fire	7,200	Public Service	18,000
Fifth Street	18,551		
Total	<u>\$ 196,847</u>	Total	<u>\$ 196,847</u>

NOTE 6. LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that directly benefitted from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

NOTE 6. LONG-TERM DEBT (Continued)

Bond and contractual agreements can be summarized as follows:

	Interest Rate	Principal Matures	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
Capital Lease	6.82%	2008	\$ 166,515	\$ (37,645)	\$ 128,870	\$ 37,645
Capital Lease	6.80%	2005	23,459	(13,157)	10,302	10,302
Capital Lease	6.60%	2004	27,216	(27,216)	-	-
2004 General Obligation Limited Tax Bonds	4.50%	2034	-	429,629	429,629	12,000
			<u>\$ 217,190</u>	<u>\$ 351,611</u>	<u>\$ 568,801</u>	<u>\$ 59,947</u>
Business-Type Activities						
Sewer Revenue Bonds	5.00%	2030	\$ 399,000	\$ (4,000)	\$ 395,000	\$ 4,000
2002 General Obligation Limited Tax Bonds	2.50 to 4.125%	2010	1,595,000	(250,000)	1,345,000	250,000
Contract Payable	4.00 to 5.85%	2021	515,000	(25,000)	490,000	25,000
2000 General Obligation Limited Tax Bonds	4.95 to 5.55%	2018	300,000	(20,000)	280,000	20,000
2000 General Obligation Limited Tax Bonds	4.75 to 5.55%	2015	295,000	(25,000)	270,000	25,000
Contract Payable	4.00 to 5.85%	2021	465,000	(20,000)	445,000	20,000
			<u>\$ 3,569,000</u>	<u>\$ (344,000)</u>	<u>\$ 3,225,000</u>	<u>\$ 344,000</u>
Component Units						
1990 DDA Bonds	6.10 to 7.45%	2010	\$ 130,000	\$ (15,000)	\$ 115,000	\$ 15,000
1994 DDA Bond	4.55 to 5.95%	2005	20,000	(10,000)	10,000	10,000
1992 DDA Bonds	5.25 to 6.40%	2010	220,000	(25,000)	195,000	25,000
1998 Contract Payable	4.05 to 5.10%	2012	510,000	(40,000)	470,000	45,000
			<u>\$ 880,000</u>	<u>\$ (90,000)</u>	<u>\$ 790,000</u>	<u>\$ 95,000</u>

Scheduled principal maturities of long-term debt for years subsequent to June 30, 2004 are as follows:

Year Ending June 30	Governmental Activities	Business-Type Activities	Component Units
2005	\$ 12,000	\$ 344,000	\$ 95,000
2006	13,000	349,000	100,000
2007	15,000	349,000	95,000
2008	15,000	364,000	100,000
2009	16,000	368,000	105,000
Thereafter	358,629	1,451,000	295,000
Total	<u>\$ 429,629</u>	<u>\$ 3,225,000</u>	<u>\$ 790,000</u>

Interest and fiscal charges for the year totaled \$144,362 for the primary governmental unit and \$48,943 for the component units; no interest costs were capitalized.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 7. CAPITAL LEASES

The City has entered into lease agreements as lessee for financing the purchase of mobile equipment and a fire truck. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of their inception date. The future minimum lease obligations and the net present value is as follows:

	<u>Year Ended June 30</u>	
	2005	\$ 47,947
	2006	37,645
	2007	37,645
	2008	37,645
	2009	37,645
		<hr/>
Total Minimum Lease Payments		198,527
Less: Amount Representing Interest		59,355
		<hr/>
Present Value		\$ 139,172
		<hr/> <hr/>

NOTE 8. SEGMENT INFORMATION

The City has issued bonds to finance sewer and water system improvements. Summary financial information for the sewer and water departments are presented below:

Condensed Statement of Net Assets:

	<u>Sewer</u>	<u>Water</u>
Assets		
Current Assets	\$ 1,051,714	\$ 488,466
Restricted Assets	25,000	-
Capital Assets	5,273,994	1,300,197
	<hr/>	<hr/>
Total Assets	6,350,708	1,788,663
	<hr/>	<hr/>
Liabilities		
Current Liabilities	683,213	180,909
Noncurrent Liabilities	2,456,000	425,000
	<hr/>	<hr/>
Total Liabilities	3,139,213	605,909
	<hr/>	<hr/>
Net Assets		
Invested in Capital Assets	2,493,994	855,197
Restricted	25,000	-
Unrestricted	692,501	327,557
	<hr/>	<hr/>
Total Net Assets	\$ 3,211,495	\$ 1,182,754
	<hr/> <hr/>	<hr/> <hr/>

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 8. SEGMENT INFORMATION (Continued)

Condensed Statement of Revenue, Expenses, and Changes in Net Assets:

	Sewer	Water
Operating Revenues	\$ 876,747	\$ 461,109
Depreciation Expense	261,396	62,964
Other Operating Expenses	445,021	444,749
Operating Income (Loss)	170,330	(46,604)
Nonoperating Revenue (Expense)		
Investment Earnings	5,269	2,939
Interest Expense	(133,196)	(25,033)
Other Income	88,004	71,651
Change in Net Assets	130,407	2,953
Beginning Net Assets	3,081,088	1,179,801
Total Net Assets	<u>\$ 3,211,495</u>	<u>\$ 1,182,754</u>

Condensed Statement of Cash Flows:

	Sewer	Water
Net Cash Provided by (Used in)		
Operating Activities	\$ 475,058	\$ 1,710
Noncapital Financing Activities	17,932	34,250
Capital and Related Financing Activities	(513,444)	(21,832)
Investing Activities	4,394	2,260
Net Increase (Decrease)	(16,060)	16,388
Beginning Cash and Cash Equivalents	647,501	274,701
Ending Cash and Cash Equivalents	<u>\$ 631,441</u>	<u>\$ 291,089</u>

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 9. RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal League risk pool program, which operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 10. DEFERRED COMPENSATION PLAN

The City offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code Section 457. The assets of the plans were held in trust as described in IRC Section 457(g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this plan, and the assets may not be diverted to any other use. The administrators are agents of the City for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the City's financial statements.

A summary of the plan's investment activity for the year ended June 30, 2004, follows:

Balance – July 1, 2003	\$ 203,461
Employee Contributions	42,295
Current Withdrawals	(61,896)
Interest and Market Gains	31,883
Adjustments/Fees	-
Balance – June 30, 2004	<u>\$ 215,743</u>

NOTE 11. EMPLOYEES' RETIREMENT PLAN

Plan Description--The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. The report may be obtained by writing to:

Municipal Employee Retirement Systems of Michigan
447 North Canal Street
Lansing, Michigan 48917
(517) 622-4401

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 11. EMPLOYEES' RETIREMENT PLAN (Continued)

Funding Policy--The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment, for the year ended December 31, 2003, were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

Annual Pension Costs--For the year ended June 30, 2004, the City's annual pension contribution was equal to \$95,277. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include: 1) an 8% investment rate of return; 2) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increase ranging from 0.0% to 4.16%; and 3) various mortality rates, retirement rates and withdrawal rates for members based on experience studies.

Three year trend information as of December 31, 2003 follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Annual Pension Cost	\$ 95,277	\$ 79,224	\$ 83,237
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	0	0	0
Actuarial Accrued Liability	4,362,322	4,009,399	3,536,236
Actuarial Value of Assets	3,567,712	3,271,398	3,103,039
Unfunded (Overfunded) AAL	794,610	738,001	433,197
Funded Percentage	82%	82%	88%
Covered Payroll	974,497	1,003,607	958,087
UAAL as a Percentage of Covered Payroll	82%	74%	45%

NOTE 12. CONTINGENT LIABILITIES

The City is a defendant in various legal actions in which plaintiffs seek damages of indeterminable amounts, which may exceed insurance coverage where applicable. Litigation is subject to many uncertainties, and the outcome of individual matters cannot be predicted. Accordingly, a reasonable range of liability to the City pertaining to these matters cannot be determined. Management has taken steps to protect the City and believes any liability resulting from cases in which it is involved will not materially affect its financial position.

**CITY OF CLARE
CLARE AND ISABELLA COUNTIES, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

NOTE 13. LANDFILL POST-CLOSURE CARE

The City owns and operated the Hatton Township Landfill, which was closed in the early 1980's. Following closure, the landfill was capped. However, there have been claims of contamination from the landfill infiltrating local aquifers and contaminating local private wells.

The City hired a technical consultant to develop an assessment plan to determine the levels of alleged migratory contamination. The Michigan Department of Environmental Quality (DEQ) assumed the role of performing this assessment in 2000. The DEQ anticipates completion of its assessment plan in early 2005.

Actual costs of post-closure assessment and potential costs for post-closure cleanup are currently indeterminable.

NOTE 14. IMPLEMENTATION OF NEW ACCOUNTING STANDARD

As of and for the year ended June 30, 2004, the City implemented GASB Statement Number 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a governments' major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

Management has elected to utilize the transition option in the implementation of GASB No. 34 and plans to capitalize the value of its network of streets as an infrastructure asset in its June 30, 2006 financial statements.

CITY OF CLARE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 1,199,131	\$ 1,199,131	\$ 1,183,817	\$ (15,314)
Licenses and permits	20,941	20,941	34,819	13,878
State aid	731,744	734,137	374,879	(359,258)
Charges for services	168,710	168,710	231,890	63,180
Interest and dividends	11,700	11,700	3,826	(7,874)
Fines and forfeits	11,800	11,800	14,929	3,129
Special assessments	34,733	34,733	53,287	18,554
Donations and contributions	2,200	3,860	1,860	(2,000)
Sale of assets	-	-	1,300	1,300
Miscellaneous	88,939	90,314	37,211	(53,103)
Total revenues	<u>2,269,898</u>	<u>2,275,326</u>	<u>1,937,818</u>	<u>(337,508)</u>
EXPENDITURES				
General Government:				
City commission	35,000	35,000	52,129	(17,129)
City manager	96,198	96,073	95,831	242
Treasurer/assessing	59,519	59,519	45,804	13,715
Clerk	121,198	122,627	113,696	8,931
Elections	-	-	-	-
Cemetery	50,296	50,296	46,326	3,970
All other general government	196,780	205,173	175,685	29,488
Public Safety:				
Police department	724,352	729,045	600,447	128,598
Building inspection and regulation activities	25,841	25,841	33,447	(7,606)
Public Works:				
Solid waste	130,833	130,833	129,223	1,610
Landfill closure	1,300	1,300	120	1,180
Downtown maintenance	35,808	35,808	34,662	1,146
Street lights	59,833	59,833	58,270	1,563
Community Development:				
Planning and zoning	37,000	34,925	20,525	14,400
Recreation and Culture:				
Parks and recreation	206,358	206,358	169,849	36,509
Airport	355,619	407,108	131,917	275,191
Capital Outlay:				
General government	55,966	126,867	105,740	21,127
Total expenditures	<u>2,191,901</u>	<u>2,326,606</u>	<u>1,813,671</u>	<u>512,935</u>
Excess (deficiency) of revenues over expenditures	<u>77,997</u>	<u>(51,280)</u>	<u>124,147</u>	<u>175,427</u>
OTHER FINANCING SOURCES (USES)				
Transfers-out	(134,817)	(134,817)	(95,617)	39,200
Total other financing sources and uses	<u>(134,817)</u>	<u>(134,817)</u>	<u>(95,617)</u>	<u>39,200</u>
Net change in fund balances	(56,820)	(186,097)	28,530	214,627
Fund balances-beginning	807,866	807,866	807,866	-
Fund balances-ending	<u>\$ 751,046</u>	<u>\$ 621,769</u>	<u>\$ 836,396</u>	<u>\$ 214,627</u>

CITY OF CLARE
BUDGETARY COMPARISON SCHEDULE
MAJOR STREET
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
State aid	\$ 198,858	\$ 344,070	\$ 360,247	\$ 16,177
Interest and dividends	540	540	268	(272)
Special assessments	-	-	773	773
Miscellaneous	-	11,500	12,309	809
Total revenues	<u>199,398</u>	<u>356,110</u>	<u>373,597</u>	<u>17,487</u>
EXPENDITURES				
Construction	27,614	30,214	528	29,686
Street maintenance	73,840	233,052	239,029	(5,977)
Administration	13,516	13,516	12,899	617
State trunkline operations	69,613	69,613	86,665	(17,052)
Total expenditures	<u>184,583</u>	<u>346,395</u>	<u>339,121</u>	<u>7,274</u>
Deficiency of revenues over expenditures	<u>14,815</u>	<u>9,715</u>	<u>34,476</u>	<u>24,761</u>
OTHER FINANCING SOURCES (USES)				
Transfers-out	(88,342)	(88,342)	(75,479)	12,863
Total other financing sources and uses	<u>(88,342)</u>	<u>(88,342)</u>	<u>(75,479)</u>	<u>12,863</u>
Net change in fund balances	<u>(73,527)</u>	<u>(78,627)</u>	<u>(41,003)</u>	<u>37,624</u>
Fund balances-beginning	<u>80,486</u>	<u>80,486</u>	<u>80,486</u>	<u>-</u>
Fund balances-ending	<u>\$ 6,959</u>	<u>\$ 1,859</u>	<u>\$ 39,483</u>	<u>\$ 37,624</u>

CITY OF CLARE
BUDGETARY COMPARISON SCHEDULE
LOCAL STREET
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 46,919	\$ 46,919	\$ 46,410	\$ (509)
Licenses and permits	-	-	-	-
Federal aid	-	-	-	-
State aid	87,248	87,248	84,072	(3,176)
Charges for services	-	-	-	-
Interest and dividends	100	100	65	(35)
Rents and royalties	-	-	-	-
Fines and forfeits	-	-	-	-
Special assessments	6,493	6,493	6,495	2
Donations	-	-	-	-
Miscellaneous	-	-	2,054	2,054
Total revenues	<u>140,760</u>	<u>140,760</u>	<u>139,096</u>	<u>(1,664)</u>
EXPENDITURES				
Street maintenance	192,584	192,578	198,521	(5,943)
Administration	11,647	11,653	11,102	551
Construction	46,099	73,721	72,587	1,134
Total expenditures	<u>250,330</u>	<u>277,952</u>	<u>282,210</u>	<u>(4,258)</u>
Deficiency of revenues over expenditures	<u>(109,570)</u>	<u>(137,192)</u>	<u>(143,114)</u>	<u>(5,922)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from debt obligations	-	-	-	-
Transfers-in	109,570	109,570	115,258	5,688
Transfers-out	-	-	-	-
Total other financing sources and uses	<u>109,570</u>	<u>109,570</u>	<u>115,258</u>	<u>5,688</u>
Net change in fund balances	-	(27,622)	(27,856)	(234)
Fund balance-beginning	<u>58,453</u>	<u>58,453</u>	<u>58,453</u>	-
Fund balances-ending	<u>\$ 58,453</u>	<u>\$ 30,831</u>	<u>\$ 30,597</u>	<u>\$ (234)</u>

CITY OF CLARE
BUDGETARY COMPARISON SCHEDULE
FIRE DEPARTMENT FUND
For the Year Ended June 30, 2004

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Federal aid	\$ -	\$ -	\$ 23,000	\$ 23,000
Charges for services	107,368	107,368	115,613	8,245
Interest and dividends	1,300	1,300	1,780	480
Donations and contributions	-	-	2,325	2,325
Sale of assets	3,000	3,000	1,500	(1,500)
Miscellaneous	-	-	777	777
Total revenues	<u>111,668</u>	<u>111,668</u>	<u>144,995</u>	<u>33,327</u>
EXPENDITURES				
Fire operations	110,494	118,972	159,012	(40,040)
Capital outlay	20,174	126,474	43,790	82,684
Debt service	38,000	38,000	37,645	355
Total expenditures	<u>168,668</u>	<u>283,446</u>	<u>240,447</u>	<u>42,999</u>
Excess (deficiency) of revenues over expenditures	<u>(57,000)</u>	<u>(171,778)</u>	<u>(95,452)</u>	<u>76,326</u>
OTHER FINANCING SOURCES (USES)				
Transfers-in	57,000	57,000	63,589	6,589
Transfers-out	-	-	(7,200)	(7,200)
Total other financing sources and uses	<u>57,000</u>	<u>57,000</u>	<u>56,389</u>	<u>(611)</u>
Net change in fund balances	-	(114,778)	(39,063)	75,715
Fund balances-beginning	<u>192,357</u>	<u>192,357</u>	<u>192,357</u>	<u>-</u>
Fund balances-ending	<u>\$ 192,357</u>	<u>\$ 77,579</u>	<u>\$ 153,294</u>	<u>\$ 75,715</u>

CITY OF CLARE
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2004

	Debt Service Funds		Capital Projects Funds					Permanent Fund	Total Nonmajor Governmental Funds
	Public Safety	1988 Street Special Assessment	Capital Improvements	Sidewalk Replacement	Public Safety	Fifth Street	Industrial Park	Cemetery Perpetual Care	
ASSETS									
Cash and cash equivalents	\$ 16,616	\$ 103	\$ 16,335	\$ 24,542	\$ 36,450	\$ 574	\$ 104,471	\$ 278,692	\$ 477,783
Taxes receivable, net	-	-	-	67	-	-	-	-	67
Assessment receivable, net	-	-	-	8,967	-	-	-	-	8,967
Due from other funds	-	-	-	432	-	-	-	-	432
Other receivables	-	-	79	121	175,769	-	406	1,095	177,470
Prepaid items	-	-	-	171	-	-	-	-	171
Total assets	\$ 16,616	\$ 103	\$ 16,414	\$ 34,300	\$ 212,219	\$ 574	\$ 104,877	\$ 279,787	\$ 664,890
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 202,267	\$ -	\$ -	\$ -	\$ 202,267
Accrued expenses	-	-	-	117	-	-	-	-	117
Due to other funds	-	-	16,270	2,751	-	-	-	-	19,021
Deferred revenue	-	-	-	8,967	-	-	-	-	8,967
Total liabilities	-	-	16,270	11,835	202,267	-	-	-	230,372
Fund balances:									
Reserved for:									
Prepaid items	-	-	-	171	-	-	-	-	171
Unreserved and undesignated	16,616	103	144	22,294	9,952	574	104,877	279,787	434,347
Total fund balances	16,616	103	144	22,465	9,952	574	104,877	279,787	434,518
Total liabilities and fund balances	\$ 16,616	\$ 103	\$ 16,414	\$ 34,300	\$ 212,219	\$ 574	\$ 104,877	\$ 279,787	\$ 664,890

CITY OF CLARE
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2004

	Debt Service Funds		Capital Projects Funds					Permanent Fund	Total Nonmajor Governmental Funds
	Public Safety	1988 Street Special Assessment	Capital Improvements	Sidewalk Replacement	Public Safety	Fifth Street	Industrial Park	Cemetery Perpetual Care	
REVENUES									
Property taxes and related fees	\$ -	\$ -	\$ -	\$ 15,457	\$ -	\$ -	\$ -	\$ -	\$ 15,457
Federal aid	-	-	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-	8,675	8,675
Interest and dividends	-	-	178	301	250	-	1,018	2,434	4,181
Special assessments, net	-	-	-	3,655	-	-	-	-	3,655
Miscellaneous	-	-	-	645	-	-	-	-	645
Total revenues	-	-	178	20,058	250	-	1,018	11,109	32,613
EXPENDITURES									
Public safety	1,384	-	-	-	-	-	-	-	1,384
Public works	-	52	34	10,694	-	8	-	-	10,788
Capital outlay	-	-	-	-	429,879	-	-	-	429,879
Total expenditures	1,384	52	34	10,694	429,879	8	-	-	442,051
Excess (deficiency) of revenues over expenditures	(1,384)	(52)	144	9,364	(429,629)	(8)	1,018	11,109	(409,438)
OTHER FINANCING SOURCES (USES)									
Proceeds from debt obligations	-	-	-	-	429,629	-	-	-	429,629
Transfers-in	18,000	-	-	-	-	-	-	-	18,000
Transfers-out	-	(18,551)	-	-	-	-	-	-	(18,551)
Total other financing sources and uses	18,000	(18,551)	-	-	429,629	-	-	-	429,078
Net change in fund balances	16,616	(18,603)	144	9,364	-	(8)	1,018	11,109	19,640
Fund balances-beginning	-	18,706	-	13,101	9,952	582	103,859	268,678	414,878
Fund balances-ending	\$ 16,616	\$ 103	\$ 144	\$ 22,465	\$ 9,952	\$ 574	\$ 104,877	\$ 279,787	\$ 434,518

CITY OF CLARE
COMBINING STATEMENT OF NET ASSETS -
INTERNAL SERVICE FUNDS
June 30, 2004

	<u>Data Processing</u>	<u>Mobile Equipment</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 227,840	\$ 130,916	\$ 358,756
Accounts receivable, net	-	2,091	2,091
Other receivables	1,130	672	1,802
Inventory	-	17,114	17,114
Prepaid items	146	1,348	1,494
Total current assets	<u>229,116</u>	<u>152,141</u>	<u>381,257</u>
Noncurrent assets:			
Capital assets:			
Land	-	85,000	85,000
Buildings and improvements, net	-	231,923	231,923
Equipment, net	79,247	328,719	407,966
Total noncurrent assets	<u>79,247</u>	<u>645,642</u>	<u>724,889</u>
Total assets	<u>308,363</u>	<u>797,783</u>	<u>1,106,146</u>
LIABILITIES			
Accounts payable	50	993	1,043
Accrued expenses	1,174	2,559	3,733
Bonds and contracts payable	-	10,302	10,302
Total liabilities	<u>1,224</u>	<u>13,854</u>	<u>15,078</u>
NET ASSETS			
Invested in capital assets, net of related debt	79,247	635,340	714,587
Unrestricted	227,892	148,589	376,481
Total net assets	<u>\$ 307,139</u>	<u>\$ 783,929</u>	<u>\$ 1,091,068</u>

CTTY OF CLARE
COMBINING STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2004

	<u>Data Processing</u>	<u>Mobile Equipment</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 131,653	\$ 478,523	\$ 610,176
Miscellaneous	-	17,084	17,084
Total operating revenues	<u>131,653</u>	<u>495,607</u>	<u>627,260</u>
OPERATING EXPENSES			
Salaries and wages	34,148	74,393	108,541
Payroll taxes	2,621	16,544	19,165
Employee benefits	13,603	19,183	32,786
Supplies	3,434	41,698	45,132
Postage	-	2,070	2,070
Contracted services	17,360	14,853	32,213
Insurance	93	21,259	21,352
Telephone and communications	-	1,029	1,029
Training	947	716	1,663
Utilities	-	10,414	10,414
Repair and maintenance	-	12,174	12,174
Equipment rental	-	18,621	18,621
Miscellaneous	-	161	161
Depreciation	34,376	105,019	139,395
Total operating expenses	<u>106,582</u>	<u>338,134</u>	<u>444,716</u>
Operating income (loss)	<u>25,071</u>	<u>157,473</u>	<u>182,544</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	2,757	2,536	5,293
Interest expense	-	(2,831)	(2,831)
Total nonoperating revenue (expenses)	<u>2,757</u>	<u>(295)</u>	<u>2,462</u>
Changes in net assets	27,828	157,178	185,006
Total net assets-beginning	<u>279,311</u>	<u>626,751</u>	<u>906,062</u>
Total net assets-ending	<u>\$ 307,139</u>	<u>\$ 783,929</u>	<u>\$ 1,091,068</u>

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Members of the City Commission
City of Clare
Clare and Isabella Counties, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Clare, Clare and Isabella Counties, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City of St. Louis, Michigan's basic financial statements and have issued our report thereon dated February 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Clare's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Clare's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Clare in a separate letter dated February 10, 2005.

This report is intended for the information and use of management, the City Commission, the State of Michigan and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Burnside & Lang P.C.

Midland, Michigan
February 10, 2000

February 10, 2005

Members of the City Commission
City of Clare
Clare and Isabella Counties, Michigan

Dear Commission Members:

In planning and performing our audit of the financial statements of the City of Clare, Clare and Isabella Counties (the "City"), for the year ended June 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

REPORTABLE CONDITION

Financial Reporting

As described in the *Uniform Accounting Procedures Manual* for Counties and Local Units of Government in Michigan, legislative bodies must be provided periodic financial reports from the Clerk and Treasurer. The required periodic reports and suggested frequency should include the following:

- Summary report of cash activity by fund (monthly).
- Summary report of cash activity by bank account, certificate of deposit and investment account (monthly).
- Balance sheet by fund (monthly).
- Detail revenue by fund – budget to actual (monthly).
- Detail expenditures by fund – budget to actual (monthly).
- Bank reconciliations (monthly).

Financial Reporting (Continued)

Due to changes in staff, these mandatory reports have not been provided to the City Commission on a regular basis. These reports must be prepared to assist the Commission in determining whether the financial activity of the various funds are within the adopted budgets, the sufficiency of the cash balances to meet the needs of the current period, and whether there is sufficient cash available to cover unforeseen expenditures.

OTHER MATTERS

Financial Oversight

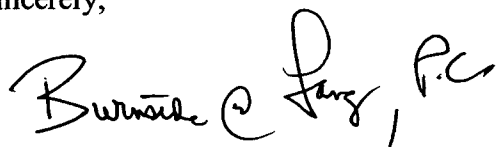
The general limitations in any smaller municipalities like the City of Clare requires that Commission members continue to remain involved in the financial affairs of the City through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Based on inquiries, the Commission members perform these duties and our comment here is intended to emphasize the importance of its oversight.

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the June 30, 2004, financial statements, and this report does not affect our report on those financial statements dated February 10, 2005. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the City Commission, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in cursive script that reads "Burnside & Lang, P.C.".

BURNSIDE & LANG, P.C.